



# County of Los Angeles

## CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN  
Chief Administrative Officer

June 18, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE BRATHWAITE BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

### STATE LEGISLATIVE UPDATE

#### State Budget Update

The June 15 deadline for adoption of a budget passed on Sunday with scarcely a comment and the Legislature on a weekend break. Only the Governor continued to express optimism, noting that the real deadline for a budget is July 1, 2003, and expressing confidence that the Legislature would approve a budget by then. With the Budget Conference Committee in indefinite recess and the Big Five meeting only once a week and seemingly unable to resolve the "big" issues left unresolved by the Conference Committee, speculation and rumors dominated discussions. Depending upon whom one talked to, a deal was either imminent or impossible for the same reason - the political fallout from the potential recall of the Governor.

One rumor that has persisted for several weeks to the point where it seems to have taken on substance is that local governments will have to absorb an additional permanent cut of approximately \$1 billion. Our June 10, 2003 Update reported on the details of what was variously called a Senate Republican proposal or a Senate proposal. Organizations representing the counties, the cities, the public safety associations in Los Angeles and Riverside Counties, and the Mayor and Council from the City of Los Angeles are all speaking out against the proposal as if it were about to happen, stressing the service reductions that will result and insisting on mitigations to make the cut more palatable.

While there are no details to permit an analysis of this non-proposal, if counties had to absorb 40 percent of the total cut of \$1.166 billion, as has been rumored, and their cut

was distributed based on population, Los Angeles County would lose approximately \$130 million. However, if special districts were not part of the cut and cities and counties had to absorb the entire reduction through a three month loss of VLF revenue, the loss to the County would increase to \$189 million.

This week, this potential local government cut surfaced again as part of a rumored budget solution that looks increasingly credible if the goal is to have a budget by July 1, 2003, which the Governor clearly wants, that does not include a tax increase which Republicans are insisting on in return for their votes. While the details of this non-proposal are obviously unavailable, its general outline has to include acceptance of a VLF increase to replace the State backfill, as well as the cuts that have been agreed upon in the Conference Committee. In order to make up the difference and balance the budget without a tax increase, the proposal would use the remaining portion of the tobacco settlement revenues to securitize bonds to raise approximately \$2 billion, most of the \$2.2 billion in Federal fiscal relief that the State will receive, and an additional \$1.166 billion cut to local governments. It is unclear whether and what additional cuts would be needed to temporarily balance the operating budget and allow the structural deficit to be rolled over until next year when the chances for a meaningful solution may improve without the pressures and politics of a recall election.

As noted above, the additional cuts in this "get out of town quick" budget could cost the County \$130 to \$189 million, in addition to the cuts already agreed to in the Conference Committee which total roughly \$75 million. In all likelihood, the cuts would result from a suspension of the VLF backfill during the 2 to 3 month period that it will take to implement a rate increase. That would be the simplest, quickest and least contentious way to obtain that large a budget savings. If that is the case, the cut would only be one-time, contrary to the rumors of a permanent cut. However, since special districts do not receive backfill, cities and counties could end up absorbing the entire \$1.166 billion cut.

Even if this is the budget endgame, it is not likely to be "officially" unveiled until sometime late next week to allow at least three or four days for the Conference Committee to incorporate the Big Five decisions in their report, and for staff to complete the drafting of budget and trailer bills. If this (or something similar) is not the July 1, 2003 budget endgame, then there is no telling when the State will have a budget and the consequences for the State's finances and services are uncertain and potentially very serious. According to the Controller, the State will have enough cash to pay its bills until the first of September. Assuming that there is at least bipartisan agreement that a bankruptcy is undesirable, September 1 would then become the deadline for a State budget.

Late Tuesday afternoon, possibly signaling that a bipartisan deal could be imminent, Assembly Republicans released a letter signed by 12 of its members. While the letter

artfully neglects to mention the amount of the cut to local governments, it states that "cuts of the magnitude under discussion" must be one-time, not permanent, and endorses some of the mitigation measures that the California State Association of Counties and the League of Cities have called for including: "a cap on the growth of ERAF beginning in 2005-06, a lifting of mandates, as well as Constitutional protection of local revenue and a prohibition on cost shifts to locals in the future...." The letter does not endorse the one mitigation that could provide immediate relief to local governments without any cost to the State, namely, a change in the law to allow a speed up in the collection of the increased VLF so that local governments would not have to wait two to three months for their revenue.

However, if a budget deal is imminent, not all the parties seem to have signed on to it. This afternoon, Speaker Wesson announced a "statewide effort by Assembly Democrats to encourage local government officials to press for a balanced approach to solve the budget crisis." Starting Monday June 23, Assembly Democrats will travel the state, including stops in Republican districts, to meet with county supervisors, city council members, police and fire officials and others to drum up support for a "balanced budget solution", i.e., one that includes a tax increase as well as budget reductions. The visits will last through Wednesday and conclude in time for Thursday's scheduled floor session which could, according to Wesson, take up a budget bill.

### ***The Budget That Might Have Been***

Early in the legislative session, after the drastic nature of the State budget deficit began to sink in, a bipartisan group of 18 moderate legislators began informally meeting, initially to discuss ways to improve the budget process, but eventually to discuss what to do about the budget problem. Yesterday, the two remaining members of the group, Assembly members Joe Canciamilla (D-Pittsburg), and Keith Richman (R-Northridge), announced what they called a "fiscally responsible budget plan", as well as an economic stimulus package and a series of fiscal reforms. The fact that the other members of the group, who no doubt joined with the best of intentions, found it politically necessary to abandon the effort once it got down to the tough decisions of cutting spending and raising taxes, says volumes about the difficulty of the budget process.

The proposal starts from the budget assumptions and cuts adopted by the Assembly, including an increase in the VLF rate and a temporary sales tax to finance \$10 billion in deficit bonds. In addition, the plan details an additional \$5.4 billion in cuts in FY 2003-04, including \$1.4 billion in health and human services, \$781 million in education and a \$500 million one-time cut to local governments. Included in the fiscal reform measures are a new State spending cap, a mechanism to build up a budget reserve and a review of mandates on schools and local governments. Included in the economic stimulus package are workers compensation reform, extension of the manufacturers' investment tax credit, restrictions on commercial lawsuits and energy

cost relief for businesses. Whatever the merits of the proposal, which could grow with the passage of time, the consensus seems to be that it was "dead upon arrival".

### **Status of County-Interest Legislation**

**County-sponsored SB 59 (Escutia)**, which would shorten the amount of time on adoption appeals, passed the Assembly Judiciary Committee on June 17, 2003 on a vote of 13 to 0, and now proceeds to the Assembly Appropriations Committee.

**County-supported if amended SB 663 (Speier)**, which would require the tax collector to make additional attempts to contact the owner-occupant prior to the sale of tax-defaulted property and prohibit the property from being offered for sale until personal contact is made, will be amended to allow a sale to be delayed for a period not to exceed four years, as requested by the County. The amendments would also increase from \$100 to \$200 the amount the tax collector can add to amount owed by the taxpayer for costs incurred by the tax collector for attempting to make contact. Since the author has agreed to accept the amendments proposed by the County, **our Sacramento advocates will now support SB 663**. This measure is set for hearing on June 23, 2003 in the Assembly Revenue and Taxation Committee.

We will continue to keep you advised.

DEJ:GK  
MAL:JR:DDN:ib

c:     Executive Officer, Board of Supervisors  
       County Counsel  
       Local 660  
       All Department Heads  
       Legislative Strategist  
       Coalition of County Unions  
       California Contract Cities Association  
       Independent Cities Association  
       League of California Cities  
       City Managers Associations